



## Investment Philosophy

SilverCross Global Small-Cap Fund invests in a portfolio of 25-35 high-quality smaller companies. It invests in companies with defensible business models across global developed markets.

The Manager applies four core principles in its stock selection. Its aim is to drive attractive long-term investment returns in excess of the benchmark while keeping portfolio turnover low.

## Core Selection Principles

**Create Value** with a sustainable business model.

**Compound Growth** thanks to a scalable business model.

**Undervaluation** implies an asymmetric risk / reward profile.

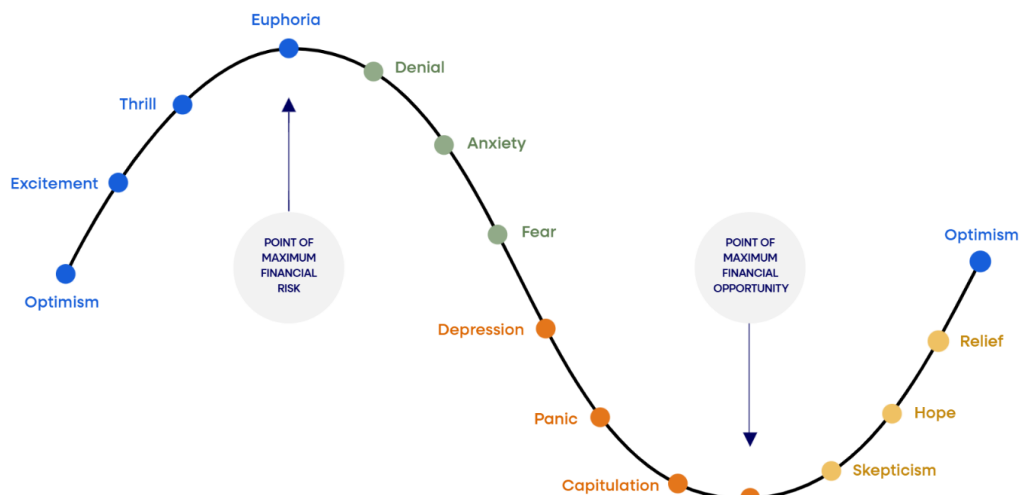
**Insider Ownership** ensures alignment with management.

## Interim update

Small-cap stocks experienced considerable volatility in the first half of 2025. The uncertainty was driven by shifts in the political landscape, macroeconomic factors, and the disruptive threat of artificial intelligence (AI). These trends have continued in the third quarter, and in 2025 small caps are once again lagging large caps. We are in a phase of hype and storytelling. Quality does not seem to be the leading factor. In this article, we focus on the impact this has on SilverCross and how we deal with it as fund managers.

### Emotions

Investors are driven by emotions and a desire for comfort. What goes up feels good, but what goes down is a headache, and headaches can only be endured for so long before investors act. Russell Investments, a renowned advisor to institutional investors since 1936, has nicely illustrated this analogy in a graph. Investor emotions, like stock prices, follow a cycle: swinging from optimism to euphoria, then to fear, despair, and capitulation. The key for investors is to recognise these emotions and to use them to their advantage: ["You can't stop the wave, but you can learn to surf."](#)



Russell Investments (2025)

After a prolonged period of small-cap underperformance, many investors now find themselves caught between "depression" and "capitulation". The outflows from many small-cap funds clearly reflect this sentiment, and in such phases, it is often difficult to identify what might spark a turnaround. Predicting the future remains difficult, so we choose not to dwell on it. Russell Investments characterises this phase as the 'point of maximum financial opportunity'.

### Key trends and developments in 2025

- **Trade tariffs:** In January, global stock markets rose. European equities performed particularly well, possibly due to easing concerns over US tariffs and waning enthusiasm for US technology stocks following the emergence of DeepSeek, a powerful Chinese AI chatbot. At the end of January, US President Donald Trump announced new import tariffs on key trading partners such as Mexico, Canada, and China. February was volatile, largely because of the tariff threats which took effect in early March, Warren Buffett went so far as to describe them as 'an act of war.' Consumer confidence weakened, management teams grew more cautious, and investors increasingly focused on the potential consequences of tariffs.

## About The SilverBullet

A silver bullet refers to a straight-forward solution perceived to have high effectiveness. With this newsletter we aim to offer a mix of thought-provoking research and small-cap insight.



## Fund Details

|                           |                              |
|---------------------------|------------------------------|
| Managers since July 2014: | David Simons & Chris Andrews |
| Inception date:           | 30 July 2014                 |
| Currency:                 | EURO                         |
| Share Class:              | A                            |
| Management Fee:           | 1.15%                        |
| Total Expense Ratio:      | 1.40%                        |
| Minimum Investment:       | 100,000                      |
| ISIN code:                | NL0010832242                 |
| Bloomberg:                | SCGSCFA NA                   |

- **Challenges in Q1 2025:** The first quarter of 2025 was challenging for global markets, particularly US equities. Trump's unpredictable policies created uncertainty, and the Federal Reserve adjusted its forecasts for inflation and unemployment. Economic growth expectations were lowered. Non-US equities generally performed better; for example, the Euro Stoxx 50 rose 7.7% in Q1, while the S&P 500 fell 8.4% in EUR terms. The best indicator of global small-cap performance, the MSCI World Small-Cap Index, fell 7.9%.
- **Volatility in April and May:** April saw a continuation of elevated market and macroeconomic volatility. The US economy contracted in Q1 for the first time since 2022, and consumer confidence declined further. Trump's announcement of an extensive tariff package on April 2 initially caused the S&P 500 index to fall by more than 21%. A week later, Trump temporarily and partially reversed the newly announced policy. Stocks staged a sharp rebound from late April into May, even as uncertainty persisted.
- **Recovery and Lagging Behind in Q2 2025:** The second quarter was among the most volatile in recent history, yet it concluded with stock markets at record highs. Lower-than-expected US inflation figures in April and May, combined with robust corporate earnings, contributed to this recovery. Small caps also rebounded, though they once again trailed large caps. The US small-cap index, the Russell 2000, rose 8% in USD terms, trailing the S&P 500 (11%) and the Nasdaq (18%), and ultimately finished the first half of 2025 in negative territory. This marked the weakest relative performance of small caps versus large caps in more than two decades. It is worth noting that a small group of stocks has driven a significant share of the gains in the S&P 500 and Nasdaq. These gains were led by companies such as Nvidia, Microsoft, Meta, Palantir, and other so-called 'AI winners'. According to a recent estimate by Barron's, this group of AI winners was responsible for roughly 60% of the market's gains.
- **The IPO market is constrained by private equity firms holding onto portfolio companies for longer:** Since the 2022 stock market crash, initial public offering (IPO) activity has been subdued. One key reason is that a lot of investor capital has flowed into private equity firms, who have been actively pursuing acquisitions. This has reduced the need for owners to sell shares in their companies on the stock market. Another factor is that sentiment in equity markets has been subdued for years, limiting investor appetite. Successful IPOs have mainly taken place in popular sectors, such as data centres and cryptocurrencies. These companies, however, are highly valued and often exceed the small-cap universe. Examples include Figma, CoreWeave, ServiceTitan, and Circle. The reason SilverCross is not particularly concerned about this development is that the fund rarely invests in IPOs. In addition, SilverCross invests in only 25-35 high-quality companies, which can still be found among the many thousands of companies listed on the stock exchange.

### The small-cap winners of 2025 do not meet SilverCross' investment criteria

Companies that have performed well on the stock market this year are active in sectors which are often loss-making with high levels of debt. Such sectors include construction, rare earths, uranium, Bitcoin and quantum computing, with notable companies including MP Materials, D-Wave Quantum, Viasat, Centrus Energy, SSR Mining, FuboTV, Greatland Gold, and Metaplanet. Companies in the defence sector likewise performed strongly. However, these companies tend to have low gross margins, low returns on invested capital, inconsistent profitability, reliance on large customers/governments and winning tenders, and have limited recurring revenue. This combination of factors is being rewarded with very high valuations of 40-130x earnings, as seen in Renk, Hensoldt, and Kratos Defence.

Although these types of companies are currently popular among investors, SilverCross will continue to refrain from investing in companies it considers speculative. The speculative phase of these sectors is evident in stocks such as Concorde International, Ostin Technology, Pheton Holdings, and other Chinese small caps listed in the US. These names were heavily promoted on social media before losing as much as 95% of their value within days.



## Investment philosophy

SilverCross focuses on investments in resilient companies with sustainable competitive advantages. We seek out businesses that combine strong value-creation potential with resilience in uncertain times. The fund avoids speculative, high-risk investments. It deliberately avoids chasing “hot” stocks or predicting market movements. This does not mean every investment will succeed. If an investment case does not materialise or if better opportunities arise, an investment is sold. This limits losses and gives successful investments time to compound.

The fund's top five holdings at the end of Q2 2025 were: Belimo, HEICO, Technology One, Rational, and ATOSS Software. Each of these stocks has been in the SilverCross portfolio for at least five years, some for more than 10 years. All of them have shown impressive growth in recent years and have at least as strong prospects.

## Activity in the SilverCross portfolio

Although 2025 has not been a good year for most small caps thus far, SilverCross Global Small-Cap Fund continues to aim for above-average returns in the long run. We continue to invest in a portfolio of 25-35 high-quality smaller companies with sustainable competitive advantages, recurring revenues, strong balance sheets, good growth prospects, proven management, and attractive valuations. To continue meeting these criteria, we critically review existing investments and selectively add new ones.

- **New Investments:** SilverCross added two new companies to the portfolio. As the positions are still being built, their names and further details will remain disclosed at a later date.
  - One new holding is a founder-led company in the UK in the British mortgage advisor market, benefiting from the shift to intermediaries and a stable customer base.
  - The second new holding is a founder-led, independent insurance broker in the US, gaining market share through its ability to distribute more complex products and capitalise on opportunities in a fragmented market.
- **Acquisitions:** SilverCross sold two positions that were delisted following successful takeover bids:
  - **Esker:** received a takeover bid from Bridgepoint and General Atlantic. Esker contributed significantly to the fund's return with a 160% increase in share price since the initial investment in April 2020.
  - **Aluflexpack:** the shares were sold following a bid from Constantia Flexibles. Overall, the investment resulted in neither a material gain nor loss.
- **Divestments:** SilverCross sold its investments in LCI Industries, Proficient Auto Logistics, and Stabilus. These companies serve OEMs (original equipment manufacturers) in the automotive or recreational sectors. The headwinds in this industry appear to be greater and more structural than previously assumed. LCI Industries contributed significantly to the investment result with an increase of 161% since its purchase in October 2014.
- **Reduced Position:** SilverCross trimmed its holding in Paylocity, a provider of payroll and human resources management software for small and medium-sized businesses in the US. This was due to the potential risk of staff reductions driven by accelerating AI adoption.



## Further potential for small caps

History shows that periods of underperformance often lay the groundwork for outperformance in the next cycle. There is little reason to believe the future will be any different. SilverCross sees the current structural changes in society as opportunities for great companies, including smaller ones. These are a few examples:

- **Rising defence spending:** Driven by increasing geopolitical tensions, outdated infrastructure in Europe, and a focus on more cost-efficient and technologically advanced solutions. Companies in the supply chain with proven successful business models, such as HEICO and Transcat in the SilverCross portfolio, are benefitting from this trend.
- **Artificial Intelligence (AI):** Although AI initially favours larger companies, specialised smaller companies are well positioned to leverage AI as a catalyst for growth. Portfolio companies such as Copart, Belimo, Carel Industries, Corvel, and Technology One are actively integrating AI tools into their business processes and customer solutions or providing solutions for data centers.
- **Re-localisation:** Governments are prioritising resilient supply chains and domestic production, creating a structural advantage for more locally operating companies. Notable examples include investments such as Azelis, Stevanato, Transcat, and Carel Industries.

## Conclusion

The key to realising the embedded value in the SilverCross portfolio is time, and thus patience. In periods when it feels like everything is rising except for small caps, this can be challenging, including for us as fund managers. However, looking at the SilverCross portfolio without emotion leads to a clear conclusion: the investment strategy, validated through multiple market cycles, remains unchanged. One can also objectively observe that today's small-cap sentiment is shaped primarily by low-quality companies priced on euphoric growth assumptions. Experienced investors have seen this pattern before. If history repeats itself, market sentiment will turn, sooner or later. Quality will prevail over the long run, and we are confident that patient investors in SilverCross will be well rewarded over time.

Thank you for your patience and trust.

Kind regards,

David Simons & Chris Andrews



## About the authors

David Simons and Chris Andrews are the founders and portfolio managers of SilverCross Global Small-Cap Fund. SilverCross is an asset manager based in Amsterdam, The Netherlands. It is focused on managing a high-conviction global small-cap equity portfolio.

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